

FINANCING STRUCTURE

ABSTRACT

A junior loan made by a junior lender to an owner/lessor of commercial real estate. Ownership of the real estate and of a lease of the real estate may be arranged in one or more special-purpose entities bankruptcy remote from obligations unrelated to the real estate. The junior loan may be collateralized at least in part by a pledge to the lender of rent cash flows generated by the lease and a junior assignment of rents under the lease. The junior lender may forego any mortgage foreclosable against the real estate, any ownership interest in any entity with an ownership interest in the real estate, the lessor of the lease, or a tenant of the real estate, except at most in the event of bad boy acts and force majeure events. The owner may surrender over to a lockbox arrangement the right to rents. The lockbox may be obligated to make a senior payment to the senior lender and a junior payment to the junior lender before the owner receives any residual of the lease payments. The lockbox may be structured to isolate payment risk to the credit of the tenant. The junior loan may have a payment priority senior to all other obligations of the lessor except a senior loan. Pricing of the junior loan may be based on the credit of the tenant. The principal of the loan may be guaranteed by a financial derivative arranged to cover default of the tenant on rents under the lease.